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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

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FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**REPORT FOR THE PERIOD BEGINNING 10/01/03 AND ENDING 09/30/04  
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**NAME OF BROKER-DEALER: Casgrain + Co. (USA) Ltd.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1200 McGill College Avenue, 21st floor

(No. and Street)

Montreal

(City)

QC

(State)

H3B 4G7

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

André Zanga(514) 871-8080

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Raymond Chabot Grant Thornton

(Name - if individual, state last, first, middle name)

600, de la Gauchetière Street West, Suite 1900

(Address)

Montreal, QC

(City)

H3B 4L8

(State)

(Zip Code)

**CHECK ONE:**

- ☐ Certified Public Accountant  
☐ Public Accountant  
☒ Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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0812-9

## OATH OR AFFIRMATION

I, Guy R. Casgrain, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Casgrain & Company (USA) Limited, as of September 30, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

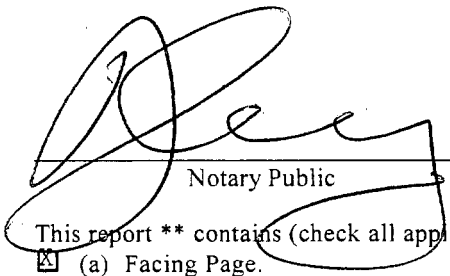
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

  
Signature

\_\_\_\_\_  
President  
Title

  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

## Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5 for a Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3

To the Board of Directors of  
Casgrain & Company (USA) Limited

In planning and performing our audit of the financial statements and supplemental schedules of Casgrain & Company (USA) Limited (the "Company"), for the year ended September 30, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons;
2. Recordation of differences required by rule 17a-13;
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

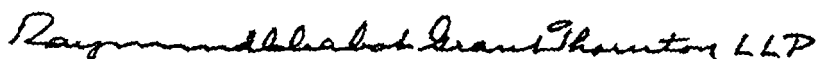
The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at September 30, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Chartered Accountants

Montréal, Québec  
November 4, 2004

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**Casgrain & Company (USA) Limited**

**Statement of Financial Condition  
September 30, 2004**

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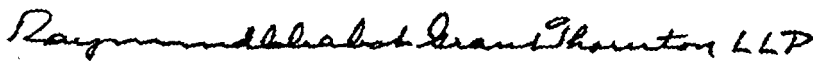
## Report of Independent Registered Public Accounting Firm

To the Board of Directors of  
Casgrain & Company (USA) Limited

We have audited the accompanying statement of financial condition of Casgrain & Company (USA) Limited as of September 30, 2004, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Casgrain & Company (USA) Limited at September 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

 Raymond Chabot Grant Thornton LLP

Chartered Accountants

Montréal, Québec  
November 4, 2004

# Casgrain & Company (USA) Limited

## Statement of Financial Condition

September 30, 2004 (in U.S.\$)

### ASSETS

Cash and cash equivalents	\$ 293,525
Securities purchased under agreements to resell	31,253,929
Receivables from broker-dealers	22,110,328
Income taxes receivable	451,945
Other assets	15,018
<b>Total assets</b>	<b>\$ 54,124,745</b>

### LIABILITIES AND STOCKHOLDER'S EQUITY

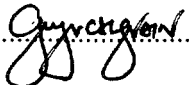
Securities sold under agreements to repurchase	\$ 11,907,930
Financial instruments sold, but not yet purchased	22,134,904
Accrued expenses	62,497
<b>Total liabilities</b>	<b>34,105,331</b>

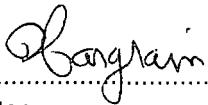
### STOCKHOLDER'S EQUITY

Preferred stock, without par value	
Authorized: unlimited number of shares	
Issued: none	
Common stock, without par value	
Authorized: unlimited number of shares	
Issued: 9,525,000	9,525,000
Retained earnings	10,494,414
<b>Total stockholder's equity</b>	<b>20,019,414</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 54,124,745</b>

The accompanying notes are an integral part of the statement of financial condition.

On behalf of the Board,

.....  
  
 Director

.....  
  
 Director

# **Casgrain & Company (USA) Limited**

## **Notes to Statement of Financial Condition**

September 30, 2004 (in U.S.\$)

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### **1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

Casgrain & Company (USA) Limited ("the Company"), a Canadian corporation, is a wholly-owned subsidiary of Casgrain & Company Limited ("the Parent"), a Canadian broker-dealer. The Company is registered as a broker-dealer with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. (NASD) and the Securities Investor Protection Corporation.

The Company deals in securities of the government of Canada and agencies, Canadian provincial governments and agencies, U.S. government securities, Canadian municipal securities as well as Canadian and U.S. corporate debt and equity securities. These activities are conducted on behalf of the Company's clients and for its own account. The Company's clients, which are strictly comprised of financial institutions and other broker-dealers, are located almost entirely in the United States.

The Company effects all its financial instruments transactions on a delivery/receive versus payment basis and therefore the Company does not otherwise hold funds or securities for, or owe money or securities, to clients.

### **2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of presentation**

Although the Company is a Canadian entity, it uses the U.S. dollar as the functional currency as the U.S. dollar is the currency of the primary economic environment in which the entity primarily operates.

#### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

#### **Financial instruments transactions**

Financial instruments transactions are recorded on a trade date basis.

Amounts receivable and payable for financial instruments transactions that have not reached their contractual settlement date are recorded net and are reflected in receivable from, or payable to, broker-dealers on the statement of financial condition.



# **Casgrain & Company (USA) Limited**

## **Notes to Statement of Financial Condition**

September 30, 2004 (in U.S.\$)

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### **2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments used for trading**

Financial instruments owned and financial instruments sold, but not yet purchased are recorded at fair value. Fair value of financial instruments used for trading, which includes accrued interest where applicable, are based on management's estimates, pricing models and quoted market prices.

#### **Transfers of financial assets**

The Company accounts for transfers of financial assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. In general, transfers are accounted for as sales under SFAS No. 140 when the Company has relinquished control over the transferred assets. Transfers that are not accounted for as sales are accounted for as repurchase agreements and collateralized financing arrangements. Financial instruments owned, which are pledged to counterparties under repurchase agreements and collateralized financing arrangements, and where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments, are disclosed parenthetically in financial instruments owned on the statement of financial condition.

#### **Securities financing transactions**

The Company enters into resale and repurchase agreements, securities borrowed and loaned transactions and bank loans in order to finance Company inventory positions, and obtain securities for settlement.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. The Company's policy is to obtain possession of collateral with a fair value substantially equal to the principal amount loaned plus the accrued interest thereon in order to collateralize resale agreements. Similarly, the Company is required to provide financial instruments to counterparties in order to collateralize repurchase agreements. To ensure that the fair value of the underlying collateral in resale and repurchase transactions remains sufficient, collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. All resale and repurchase activities are transacted under master netting agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty.

Resale and repurchase agreements are reported net by counterparty, when applicable, pursuant to the provision of Financial Accounting Standards Board ("FASB") interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements (FIN 41).

# **Casgrain & Company (USA) Limited**

## **Notes to Statement of Financial Condition**

September 30, 2004 (in U.S.\$)

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### **2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Securities borrowed and securities loaned transactions are generally reported as collateralized financings except where other securities are used as collateral. Securities borrowed and loaned transactions collateralized by cash are recorded at the amount of cash collateral advanced or received plus accrued interest thereon. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral in an amount generally equal to the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned against the collateral value on a daily basis, with additional collateral obtained or refunded as necessary. All borrowing and lending activities securities are transacted under master netting agreements.

Bank loans, necessary to facilitate the securities settlement process for the Company's transactions are recorded at the amount of cash received in connection with the transaction plus accrued interest. Bank loans are collateralized by financial instruments owned by the Company, securities purchased under agreements to resell and/or failed to deliver securities.

#### **Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the year-end rates of exchange.

#### **Income taxes**

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred income taxes are provided for using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the financial reporting and tax basis of assets and liabilities, using the currently enacted tax rates. Deferred tax assets are recognized to the extent that realization of such benefits are more likely than not.

#### **Cash equivalents**

The Company defines cash equivalents as liquid investments with original maturities of three months or less, other than those held for sale in the ordinary course of business.

### **3 - RECEIVABLES FROM BROKER-DEALERS**

At September 30, 2004, receivables from broker-dealers consisted only of net receivables arising from unsettled regular-way trades.

### **4 - FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED**

Financial instruments sold, but not yet purchased consisted solely of U.S. government debt as at September 30, 2004.

# Casgrain & Company (USA) Limited

## Notes to Statement of Financial Condition

September 30, 2004 (in U.S.\$)

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### 5 - CONTINGENT LIABILITIES AND COMMITMENTS

The Company has deposit securities having a market value of \$320,926 to satisfy margin deposit requirements with a recognized depository and clearing corporation.

### 6 - FINANCIAL INSTRUMENTS AND TRADING ACTIVITIES

The Company's trading activities consist in trading of Canadian governments (federal, provincial and municipal) and U.S. government debt, as well as Canadian and U.S. corporate debt and equity securities with clients. While trading is generated by clients order flow, the Company also takes proprietary positions based on expectations of future market movements and conditions. The Company's trading strategies rely on the integrated management of its client-driven and proprietary transactions along with the hedging and financing of these positions.

These trading activities expose the Company to market and credit risks. These risks are managed in accordance with risk management policies and procedures established by the Company, as discussed below.

#### Market risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest rates, currency exchange rates and credit spreads. Market risk is directly impacted by the volatility and liquidity in the markets in which financial instruments are traded. The following describes the types of market risks faced by the Company.

#### – Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

#### – Currency risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will affect the value of financial instruments.

#### – Credit spread risk

Credit spread risk arises from the possibility that changes in an issuer's credit rating or credit perception affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given quality, i.e. the additional yield that a debt instrument issued by an entity must produce over a less risky alternative (e.g. U.S. Treasury financial instrument).

The Company monitors its exposure to market risk by entering into offsetting positions in other financial instruments and by reviewing trading positions and limits.

## Casgrain & Company (USA) Limited

### Notes to Statement of Financial Condition

September 30, 2004 (in U.S.\$)

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#### 6 - FINANCIAL INSTRUMENTS AND TRADING ACTIVITIES (Continued)

##### Credit risk

Credit risk is the risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms and the collateral held, if any, is deemed worthless ("default risk"). Financial instruments are valued at fair value and therefore reflect the Company's maximum default risk exposure as at the balance sheet date. In the case of resale and repurchase agreements as well as on and off-balance sheet securities lending and borrowing arrangements, this default risk is mitigated by master netting agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty.

As a broker-dealer, the Company executes and settles various client and broker-dealer transactions. Execution of these transactions includes the purchase and sale of financial instruments by the Company. These activities may expose the Company to a default risk arising from the potential that clients, broker-dealers or issuers may fail to satisfy their obligations. In these situations, the Company may sustain a loss if it has to purchase or sell the financial instruments underlying the contracts at an unfavorable market price.

The Company also clears some of its transactions through a bank pursuant to a clearance agreement. Nonperformance by the bank in fulfilling its contractual obligations to the Company may expose the Company to default risk and potential loss, as described above.

In connection with its trading activities, the Company enters into resale and repurchase agreements, on and off-balance sheet securities borrowing and lending arrangements and bank loans. Under these agreements and transactions, the Company either receives or provides collateral such as cash or financial instruments. Additionally, the Company delivers collateral to satisfy margin deposits with clearing organizations. In the event that the counterparty is unable to meet its contracted obligation to return financial instruments or cash delivered as collateral, the Company may incur a loss up to the amount by which the market value of the collateral delivered exceeds the value of the cash or financial instruments received. As mentioned, the Company enters into resale and repurchase agreements as well as securities loan agreements. These agreements include contractual provisions allowing additional collateral to be obtained or excess collateral returned when necessary, and give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty in order to reduce exposure to credit losses.

The Company manages credit risk by reviewing and establishing individual and group limits, by monitoring and managing daily exposure to credit limits, by reviewing counterparty financial soundness periodically, by utilizing a clearing bank that is highly capitalized, by obtaining additional collateral or retrieving excess collateral from counterparties, when deemed appropriate, and by entering into resale and repurchase agreements, and securities loan agreements.

## **Casgrain & Company (USA) Limited**

### **Notes to Statement of Financial Condition**

September 30, 2004 (in U.S.\$)

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#### **6 - FINANCIAL INSTRUMENTS AND TRADING ACTIVITIES (Continued)**

##### **Concentration of credit risk**

Concentration of credit risk may arise from exposure to a single debtor or to a group of debtors having similar business characteristics or being engaged in like activities such that their ability to meet their contractual commitments is expected to be adversely affected in a similar manner, by changes in economic, political or other market conditions. To reduce the potential risk of concentration, individual and group credit limits are established and monitored in light of changing new counterparties and market conditions. The Company does not expect nonperformance by counterparties in the above situation.

The Company's most significant industry credit concentration is with U.S. and Canadian governments, financial institutions and other broker-dealers. This concentration arises in the normal course of the Company's business.

#### **7 - COLLATERAL**

The Company primarily receives collateral in connection with resale agreements and securities borrowed transactions. The Company is permitted to sell or repledge these securities held as collateral and use the securities to deliver to counterparties to cover short positions, secure repurchase agreements and bank loans or enter into securities lending transactions.

As at September 30, 2004, the fair value of securities received as collateral by the Company that it was permitted to sell or repledge, excluding the impact of FIN 41, was \$31,126,828 of which \$12,260,261 was sold or repledged.

#### **8 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments owned and financial instruments sold, but not yet purchased, are carried at fair value, which is defined in Note 2. All other financial assets and liabilities are recorded at contracted amounts approximating fair value due to the short-term nature of these financial instruments.

#### **9 - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. At September 30, 2004, the Company had net capital of \$17,533,406 which was \$17,283,406 in excess of its required net capital of \$250,000.

## **Casgrain & Company (USA) Limited**

### **Notes to Statement of Financial Condition**

**September 30, 2004 (in U.S.\$)**

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#### **10 - RELATED PARTY TRANSACTIONS**

In the normal course of business, the Company enters into financial instruments transactions and securities financing transactions with the Parent. The Company believes that these transactions are subject to terms and conditions comparable to transactions with unaffiliated entities. Additionally, the Company contracts a variety of services from the Parent. Such services include occupancy, use of equipment, back office, regulatory and administration.

As at September 30, 2004, the Company had a net payable to the Parent of \$14,305,122 relating to financial instruments transactions that have not reached their contractual settlement date. This amount is netted with other receivable for unsettled regular-way trades and is reflected in receivables from broker-dealers on the statement of financial condition. In addition, the Company had also with the Parent \$19,346,000 of securities purchased under agreements to resell and \$11,907,930 of securities sold under agreements to repurchase.

The charges related to services contracted from the Parent at September 30, 2004 amount to \$45,522 and are included in accrued expenses.